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SUBJECT: SLOVENIAN ENERGY: VULNERABLE BUT DIVERSIFIED

REF: A) BUDAPEST 0309

B) LJUBLJANA 0132

SENSITIVE

11. (SBU) Summary: A small, mountainous country with limited natural resources, Slovenia not surprisingly relies on external sources for many of its fossil fuel energy needs. Slightly more than 55 percent of Slovenia's total energy supply comes from liquid and solid fossil fuels. An additional 15 percent of total energy is provided by natural gas, 20 percent from nuclear power, and the balance from renewable sources. In spite of this reliance on external sources, Slovenia's overall energy picture is less bleak than some of its Central and Eastern European neighbors. Of note, approximately 90 percent of Slovenia's electrical needs are supplied from domestic sources. Nearly 40 percent of electrical consumption in Slovenia comes from domestic coal, roughly one-third from hydroelectric plants on Slovenian rivers, and, under joint ownership with Croatia, about 20 percent of domestic electricity consumption comes from nuclear power. The remaining ten percent of Slovenian electricity needs come from imports.

12. (SBU) While Slovenia felt the sting of the Russia-Ukraine dispute earlier this year, natural gas currently takes up a relatively small, albeit growing, portion of Slovenia's total energy picture. Slovenia has limited options to reduce its current usage of crude oil products other than through efficiency improvements or use of "greener" technologies. With this in mind, Slovenia has made a strong commitment to renewable sources of energy, largely through hydroelectric power. Post also understands that Slovenia is considering expanding its use of nuclear energy in coming years. End summary.

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National Energy Program: Renewable and Nuclear  
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13. (U) In May 2004, Slovenia adopted a national energy program. The program, which looks out to 2015, addresses Slovenia's needs by individual energy sources and lays out overarching principles to ensure energy security. The program envisions increasing the efficiency of energy use, encouraging the use of renewable sources of energy,

increasing co-generation production of electricity, and support for increased use of biofuels in transport. In addition, the program calls for studying the possibility of extending the life of the Krsko nuclear power plant, increasing the number of hydroelectricity plants, and retaining significant state ownership in energy companies.

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Natural Gas: Low But Growing Consumption  
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¶4. (U) Slovenia imports 100 percent of its natural gas needs and has only limited domestic storage, keeping a supply buffer in rented storage facilities in Austria. As with much of Europe, Slovenia relies to a large extent on Russia for its natural gas needs. Approximately 60 percent of annual natural gas usage of slightly more than one billion cubic meters comes to Slovenia from Russia via Austria. The balance of Slovenia's natural gas comes from Algeria via the Italian pipeline. The pipeline from Austria connects to the pipeline in Italy via an approximately 270 km main line that transits Slovenia from the northeast to the west. Slovenia is currently in the process of expanding its distribution pipeline network, currently just over 500 km, to provide broader coverage to all parts of the country. A monopoly until 2003, GOS-owned natural gas concern Geoplin controls the vast majority of the market in Slovenia.

¶5. (U) In relation to some of its Central and Eastern European neighbors, the usage of natural gas as an energy source in Slovenia is still relatively low, providing slightly less than 15 percent of primary energy needs. One of the main reasons for a lower level of gas consumption in Slovenia is that only about 25 percent of municipalities are connected to the natural gas pipeline network. Homes in

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Slovenia are more likely to be heated by wood, heating oil, or even coal than by natural gas. In addition, unlike some of its neighbors, Slovenia does not use natural gas to supply its electricity needs. Despite this, Slovenia has seen significant increases in natural gas consumption in recent years and the GOS expects that this will continue. As the natural gas network in Slovenia continues to grow, some experts predict a 70 percent increase in natural gas usage in Slovenia over the 2000-2015 timeframe.

¶6. (SBU) The Russian-Ukrainian gas dispute of earlier this year, while catching Slovenia by surprise, did not impact the domestic supply of natural gas. Supply from Russia did drop by one third during the dispute, but this decrease only lasted for 24 hours. Buffer stock in Austria and average temperatures no lower than six degrees Celsius helped see Slovenia through the brief crisis, according to Miro Vidmar, the head of the Division for Energy at the Ministry of the Economy.

¶7. (SBU) Vidmar acknowledged, however, that had the weather been colder or had supply cuts been longer or more severe, Slovenia could have faced a "huge problem." Noting that Slovenia feels "trapped" by its situation, Vidmar said that all options for improving gas supply security were on the table. He said the GOS is considering plans to build buffer storage facilities within Slovenia where it might maintain supply to deal with issues like this in the future. Vidmar also said Slovenia was considering the option of working with Croatia on the development of an LNG terminal in the Adriatic Sea (ref A). He noted, though, that Slovenia had limited short-term options to diversify its current natural gas supply situation and that it would be at least three years before significant changes could be implemented. Vidmar said that while the Russia-Ukraine situation was currently stable, the dispute was "fair warning" that prompt action needed to be taken by the government.

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## Oil and Gasoline: Total Reliance on Imports

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¶8. (U) Slovenia relies completely on other countries for the refining and supply of its liquid fossil fuel products. Gasoline, diesel, heating oil, and other crude-based products are produced in Italy, France, Bulgaria, Austria, Hungary, and Croatia, and are delivered to storage facilities or fueling stations in Slovenia by tanker truck. Miha Kirn, Manager for oil products supply at market share leader (and government-owned) Petrol, told Econoff that it is not cost-effective for Slovenia to refine crude oil products domestically. A Petrol-owned refinery in the northeastern Slovenian city of Lendava is no longer operational and is used for the 90-day EU-mandated storage of refined oil products.

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## Nuclear: Extend Existing Plant, Possible New Facility

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¶9. (U) In commercial operation since 1983, the 675 MW Krsko nuclear power plant accounts for nearly 40 percent of all of the electricity produced in Slovenia. Krsko is jointly owned by the governments of Slovenia and Croatia through electrical utilities Eles Gen (Slovenia) and HEP (Croatia). The power that is produced by Krsko, approximately 5.2 Twh per year, is distributed equally to Eles Gen and HEP. Nuclear power from Krsko currently supplies approximately 20 percent of Slovenia's electrical needs.

¶10. (SBU) The agreement that launched Krsko in the late 1970s stipulated that all aspects of the Krsko venture should be shared equally by Slovenia and Croatia: investment, power production, and waste. Since the breakup of Yugoslavia, however, problems with this sharing arrangement have cropped up on a regular basis. A dispute over allegedly insufficient payments for power by Croatia led to Slovenia cutting off the power supply from Krsko to Croatia in 1998 and once again in 2002-2003. Following an agreement signed by Slovenia and Croatia in 2003, however, the power was turned back on. President of Krsko Stane

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Rozman told COM during a visit to the power plant on 15 March that the 2003 agreement had helped resolve differences.

¶11. (SBU) Croatia and Slovenia also have yet to come to terms on disposal of radioactive waste from the power plant. The 2003 agreement envisioned a sharing of waste and an ongoing development of a "waste fund" (paid for in a tax on electricity prices). According to Post contacts, Slovenia has set aside sufficient money in a fund to address waste, but Croatia has yet to do so. Rozman, and his Croatian managing partner Hrvoje Perharic, told COM that Croatia is currently assessing a tax on electricity to seed a fund, but that a formal fund had yet to be established. Moreover, according to the Slovene Nuclear Safety Agency, Croatia has yet to accept any portion of the waste from Krsko and has said that it never will. Both Rozman and Perharic made clear, however, that Croatia understood its obligation to pay its share for waste disposal. All waste, including highly radioactive spent fuel rods, are currently stored on the grounds of the Krsko facility.

¶12. (SBU) The future of Krsko and nuclear power in Slovenia will depend on resolution of the waste issue, according to Rozman. Rozman acknowledged that a long back-burned plan to build a second nuclear facility was gaining some momentum, but that a plan for the storage of waste from Krsko would have to be finalized first. Contacts familiar with nuclear energy insiders in Slovenia tell Econoff that there is "tacit" agreement among politicians to move forward with the discussion of a second plant. We also understand that the public sentiment may not be overly negative.

Despite this, a new plant is a very long-term prospect according to Rozman, requiring ten years from a political agreement until a plant could be operational. In any case, Slovenia will likely move forward with an extension of the life of Krsko. Currently scheduled to be decommissioned in 2023, Rozman told COM that his team was investing and upgrading the facility in line with a plan to extend the life of Krsko beyond this date, possibly by as much as twenty more years. Rozman seemed confident in the future of nuclear power in Slovenia, particularly given the limitations of other options.

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Coal: Will Remain Major Source of Electricity  
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¶13. (U) Coal-fired power plants in Slovenia provide nearly 40 percent of Slovenia's electrical needs. By far the largest coal electrical facility is located in Sostanj, directly across the road from the Velenje coal mine. Owned by the GOS-controlled energy provider Holding Slovenske Elektrarne (HSE), the 750 MW Sostanj plant currently supplies 3.6 Twh of electricity annually, or nearly 30 percent of all of Slovenia's electricity. Contacts tell Post that usage of coal as a primary source of energy will continue for the foreseeable future, with the Velenje mine estimated to be viable through 2040.

¶14. (SBU) Uros Rotnik, the head of the Sostanj facility, says that Slovenia will continue to have coal as a mainstay of its energy strategy for the foreseeable future. Rotnik told Econoff that the GOS, through HSE, is investing 40 million Euros to add new turbines to the Sostanj facility. He said this upgrade to the plant will increase operating efficiency by 38 percent when the new turbines come online in 2008. This performance improvement would enable Sostanj to continue to use coal at the same rate as it does now, approximately four million tons per year.

¶15. (SBU) Rotnik further noted that HSE is evaluating the addition of another block to the current facility in 2011, at a cost of approximately 500 million Euros. He said that once this new block was operating, the Sostanj plant would phase out usage of older parts of the facility. In addition, Rotnik said both investments would help the power plant decrease its production costs by nearly 25 percent and that cleaner coal-burning technology would help Slovenia to meet its Kyoto commitments.

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Hydroelectric power and other renewable sources  
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¶16. (SBU) Slovenia currently receives approximately one third of its electricity from hydroelectric power and has five additional plants in planning or under construction. These additional units would bring hydropower's share of electricity supply in Slovenia to approximately 40 percent by 2018. Given the seasonal fluctuations in river levels and the potential negative impact of low rainfall years on power production, however, it is unlikely that Slovenia would increase hydro share beyond this level.

¶17. (U) As part of an EU directive, Slovenia is currently working on its plans for introduction of biofuels. The GOS has said, however, that Slovenia will be late in meeting the EU targets of biofuel as a share of total energy consumption. Due to a lack of domestic production capacity, Slovenia may not meet the target of 5 percent by 2010. In a move to address the capacity constraint, the GOS has committed to converting a factory currently used to produce sugar from sugar beets to a biofuel plant by the end of ¶2007.

¶18. (SBU) Western Slovenia has been touted as a potential site to develop a different source of renewable energy. Plans to build wind power facilities in an area of the country known for its strong air currents have long been suggested as an alternative source to imported fossil fuels and nuclear power. In 2004, the GOS supported a plan to invest approximately USD 250 million in the development of three wind-powered electrical plants. Largely due to concerns over native species in the proposed locations, however, the Agency for the Environment blocked further development of the project until the environmental concerns could be addressed. As Post understands it, serious discussion on wind power as an important energy source is not/not happening at the current time.

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HSE and Privatization: On the Horizon? Sort of.  
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¶19. (SBU) From production to distribution, the government controls nearly all aspects of the energy sector in Slovenia. The GOS has historically taken a very conservative view of privatization (ref B), preferring to move more cautiously than some of its regional neighbors. The GOS has, however, said that it intends to create a more competitive market by selling off at least part of HSE to a private partner and by creating a second "energy pillar" to compete with the national utility HSE. Despite the stated plans, conservatism continues to rein. Minister of the Economy Andrej Vizjak has said that privatizing HSE "should happen" but that it is not urgent. Contrasting Slovenia with some of its neighbors, Vizjak has said that Slovenia doesn't need to "patch up holes in its budget" by selling off HSE in an expedient manner. Claiming that it would be "too risky to let market forces run the system", Joze Zagozen, general manager of HSE, has also said he favors a partial privatization of the utility, but that the state should retain at least 51 percent.

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Comment  
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¶20. (SBU) The Slovenian Government was jolted by the Russian cutoff of gas to Ukraine and appears to be focused on the question of energy security. For the time being, Slovenia has sufficient diversity of energy sources so that officials are not in a state of alarm. Nevertheless, our energy contacts tell us that now is the time to take steps to improve energy efficiency, increase use of renewable energy sources and explore other measures to secure the country's energy supply.  
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